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MEMORANDUM

SUBJECT: Italian Political Situation

1. Currently, the Andreotti government is confronted by a series of challenges which contribute to mounting tension among and within the major political parties. Andreotti's Christian Democratic government relies on the Communists and four other parties for its parliamentary majority, and for the time being no consensus exists on an acceptable alternative formula. But an issue by issue confrontation could eventually result in the erosion of Andreotti's support.

2. Many of the government's current difficulties reflect the intertwining of Italy's broader economic and political problems. The government has run into trouble each time it has tried to elaborate specific measures implementing the general objectives of its proposed economic plan--calculated to curb labor costs as well as the growing public sector deficit; labor problems, pension and agrarian reform, and Italy's entry in the proposed European Monetary System have become particularly contentious issues.

3. With the expiration this year of three-year collective contracts covering about 5 million workers, the problem of wage restraint will be an especially significant test of the government's parliamentary support. The key question is whether the Communist Party and its labor allies' can keep their commitment to wage restraint. The Communists are feeling increased rank and file pressure to demonstrate that the party's support for the government's program is producing tangible benefits in the form of higher wages, increased government investment and job creation. Earlier this month, Treasury Minister Pandolfi told Ambassador Gardner he would seriously consider resigning if excessive wage increases undercut the economic plan.

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4. [redacted] increasing concern among some Communist leaders and rank and file members that the party's support makes it responsible for government actions with no authority to shape its policy. Dis-satisfaction with the party's role in the majority is particularly strong among Communist-oriented workers, many of whom view its support of economic austerity measures as a betrayal of labor's interests for political motives.

5. There are also indications that some members of the Christian Democratic and Socialist parties, who want a government less dependent on the Communists, think that issues related to Andreotti's economic proposals might be exploited to split his parliamentary majority and create a new government based on some alliance between their parties. Thus, some Christian Democratic and Socialist elements in the labor movement have focused on Communist support for economic austerity measures to cultivate worker sentiment in favor of higher wages and to lure support away from the more influential Communist-oriented unions.

6. Despite a climate of mounting tension, many factors argue strongly against an Italian government collapse in the near future. New general elections are a strong possibility if the government falls. No party desires to be held accountable for causing a governmental crisis and each harbors its own reasons for avoiding an election.

7. The Communists, for example, are concerned that the electoral trend suggested by their losses in local contests last May might be confirmed in a national election. Although there are indications that the Christian Democratic party would make some gains in a general election, many Christian Democrats view the current arrangement as the best possible way to hold the Communists at bay while making them share responsibility for the government's actions. Christian Democrats are also uncertain about the Socialist Party's reliability as a coalition partner--the most likely alternative should the Communists return to the opposition.

8. For their part, the Socialists are also unprepared for an electoral test in the immediate future. Party leader Craxi is still working out the theory and implications of an "autonomous policy" calculated to distinguish the Socialists and presumably capture votes from the two larger parties. Remembering the losses they suffered while part of the center-left coalition with the Christian Democrats, the Socialists are reluctant to commit themselves to government responsibility while allowing the Communists the luxury of monopolizing the opposition.

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9. Under these circumstances, party leaders are casting about desperately for a clue--short of a general election--indicating any significant trends in their relative strengths. The inconclusive results of recent regional elections in northern Italy, in which the three major parties dropped compared to the 1976 general elections, present a confused picture and, if anything, contribute to the parties' reluctance to topple the Andreotti government.

10. Party leaders are anxiously anticipating several events as possible measures of changes in their mutual relationships. The Christian Democratic and Communist Party congresses scheduled for next spring may provide a glimpse of possible challenges to existing leaders and policies. Direct elections for membership in the European Parliament next June could be fought on the basis of domestic issues and may be perceived as a referendum on the respective parties' actions.

11. Meanwhile, the parties supporting the government will continue to juggle their conflicting interests in the day-to-day business of governing. And particularly as they try to implement the economic plan, there is the danger that any single issue, though not decisive in itself, may create strains beyond the parties' capacity for flexibility--resulting in a misstep and the premature crisis which nearly all the parties are seeking to avoid.